

CITY OF SHELBY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2016

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**CITY OF SHELBY
OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2016)		
Ron Kroll	Mayor	January 2016
Bob Richmond	Mayor Pro-tem	January 2016
Sheila Rihner	Council Member	January 2016
Karen Schlueter	Council Member	January 2018
Pat Honeywell	Council Member	January 2018
Shawn Osbahr	Council Member	January 2016
Christie Martin	City Clerk	Indefinite
Clint Fichter	City Attorney	Indefinite
Patricia Morris	City Treasurer	Indefinite
(After January 2016)		
Ron Kroll	Mayor	January 2018
Bob Richmond	Mayor Pro-tem	January 2020
Sheila Rihner	Council Member	January 2020
Karen Schlueter	Council Member	January 2018
Pat Honeywell	Council Member	January 2018
Doyle Gilland	Council Member	January 2020
Christie Martin	City Clerk	Indefinite
Clint Fichter	City Attorney	Indefinite
Diane Leslie	City Treasurer	Indefinite

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

August 25, 2016

Lonnie G. Muxfeldt
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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shelby, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Continued . . .

August 25, 2016

To the Honorable Mayor and
Members of the City Council:
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I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shelby, Iowa as of June 30, 2016, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shelby's basic financial statements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis, and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 7 through 12 and 36 through 40, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

August 25, 2016

To the Honorable Mayor and
Members of the City Council:
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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated August 25, 2016 on my consideration of the City of Shelby's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Shelby's internal control over financial reporting and compliance.

 Murphy & Associates, CPA, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Shelby provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 34%, or approximately \$552,000, from fiscal year 2015 to fiscal year 2016. Property tax increased approximately \$92,000. Tax increment financing decreased approximately \$250,000 and loan proceeds decreased approximately \$433,000.

Disbursements of the City's governmental activities decreased 44%, or approximately \$744,000, in fiscal year 2016 from fiscal year 2015. Capital projects decreased approximately \$951,000. Public safety and general government increased approximately \$141,000 and \$30,000, respectively.

The City's total cash basis net position increased 31%, or \$573,000, from June 30, 2015 to June 30, 2016. Of this amount, the assets of the governmental activities increased approximately \$442,000 and the assets of the business type activities increased approximately \$131,000.

USING THIS REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Position is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, the sanitary sewer system and the electric utility. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds which are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Electric Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from approximately \$991,000 to approximately \$1,433,000.

Changes in Cash Basis Net Position of Governmental Activities

	Year Ended June 30, 2016	Year Ended June 30, 2015
Receipts:		
Program receipts:		
Charges for services	\$ 143,325	\$ 95,725
Operating grants, contributions and restricted interest	133,128	114,622
Capital grants, contributions and restricted interest	3,831	34,421
General receipts:		
Property tax	354,452	262,516
Tax increment financing	200,658	450,589
Local option sales tax	46,183	58,819
Unrestricted investment earnings	827	571
Miscellaneous	30,750	14,511
Loan proceeds	148,500	581,837
Total receipts	1,061,654	1,613,611
Disbursements:		
Public safety	233,969	93,178
Public works	275,252	278,139
Culture and recreation	30,771	54,731
Community and economic development	33,636	1,795
General government	156,759	126,528
Debt service	19,225	10,329
Capital projects	242,812	1,202,113
Total disbursements	992,424	1,766,813
Change in cash basis net position before transfers	69,230	(153,202)
Transfers	372,739	336,510
Change in cash basis net position	441,969	183,308
Cash basis net position, beginning of year	991,091	807,783
Cash basis net position, end of year	\$ 1,433,060	\$ 991,091

The City's total receipts for governmental activities decreased 34%, or approximately \$552,000. The total cost of all programs and services decreased approximately \$744,000, or 44%, with no new programs added this year. The significant decrease in receipts and disbursements was due to capital projects financing and disbursements in the prior year.

The City maintained property tax rates at the same level for fiscal years 2016 and 2015. Property tax receipts increased 35%, or approximately \$92,000 from the prior year due to increases in assessed valuation. Property tax rates and collections will remain steady next year.

The cost of all governmental activities this year was approximately \$992,000 compared to approximately \$1.7 million last year. However, as shown in the Statement of Activities and Net Position on pages 14 - 15, the amount taxpayers ultimately financed for these activities was approximately \$712,000 because some of the cost was paid by those directly benefited from the programs (approximately \$143,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$137,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2016 from approximately \$245,000 to approximately \$280,000.

Changes in Cash Basis Net Position of Business Type Activities			
	Year Ended June 30,		Year Ended June 30,
	2016		2015
Receipts:			
Program receipts:			
Charges for services:			
Water	\$ 171,479	\$	168,319
Sewer	63,537		59,412
Electric	646,315		670,114
Operating grants, contributions and restricted interest	84		2,285
General receipts			
Unrestricted interest on investments	304		285
Sale of property	148,622		-0-
Total receipts	<u>1,030,341</u>		<u>900,415</u>
Disbursements:			
Water	96,849		91,106
Sewer	20,939		27,296
Electric	408,783		473,429
Total disbursements	<u>526,571</u>		<u>591,831</u>
Change in cash basis net position before transfers	503,770		308,584
Transfers	(372,739)		(336,510)
Change in cash basis net position	131,031		(27,926)
Cash basis net position, beginning of year	<u>850,566</u>		<u>878,492</u>
Cash basis net position, end of year	\$ <u>981,597</u>	\$	<u>850,566</u>

Total business type activities receipts for the fiscal year were approximately \$1,030,000 compared to approximately \$900,000 last year. This increase was due primarily to the transfer of the City's ownership interest in jointly owned electric transmission capacity. The cash balance increased approximately \$131,000, or 13%, from the prior year. Total disbursements for the fiscal year decreased 11% to approximately \$527,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Shelby completed the year, its governmental funds reported a combined fund balance of \$1,433,060, an increase of \$441,969 above last year's total of \$991,091. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$215,837 from the prior year to \$745,137. Internal transfers, fire truck fundraisers and increased property tax receipts account for the majority of the increase.

The Special Revenue, Local Option Tax Fund cash balance decreased \$135,348 from the prior year to \$3,957. City Council has flexibility on the uses of local option tax and directed its use for general government and capital projects purposes.

The Special Revenue, Urban Renewal Tax Increment Fund was established to account for major urban renewal projects within the City. At the end of the fiscal year, the cash deficit was \$17,739, a decrease of \$71,083 from the previous year. \$240,470 was transferred to the Capital Projects Fund within the Urban Renewal Area.

The Capital Projects Fund was established to account for infrastructure projects such as the renovation of City Hall and East Street and other projects related to economic development such as housing grants to homebuyers, and small business startup and façade improvement grants.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance increased by \$42,666 to \$8,861 from a deficit of \$33,805.

The Enterprise, Sewer Fund cash balance increased by \$1,317 to \$218,273.

The Enterprise, Electric Fund cash balance increased by \$87,048 to \$754,463, due primarily to the transfer of the City's interest in its jointly owned electric transmission capacity to Northwest Iowa Power Cooperative.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once on May 3, 2016, increasing receipts and disbursements by \$252,536 and \$506,758, respectively.

The City's receipts were \$148,350 less than budgeted. This was primarily due to the City receiving less in charges for services than budgeted. The disbursements were \$644,850 less than budgeted, principally in the public safety, capital projects and business type activities functions.

DEBT ADMINISTRATION

At June 30, 2016, the City had \$723,091 of notes outstanding, compared to \$582,136 last year, as shown below.

Outstanding Debt			
		Year Ended June 30, 2016	Year Ended June 30, 2015
General obligation notes	\$	754,337	\$ 581,837
Revenue notes		254,000	299,000
Total	\$	1,008,337	\$ 880,837

Scheduled principal and interest payments for the year ended June 30, 2016 were \$52,500 and \$24,457, respectively. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$754,837 is significantly below its constitutional debt limit of approximately \$3.6 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Shelby's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates and fees charged for various City activities.

Amounts available for appropriation in the 2017 operating budget are approximately \$2.4 million, a 41% increase from the final fiscal year 2015 budget. This is primarily due to budgeted loan proceeds of \$600,000 for 2017. Tax rates for fiscal year 2017 have not changed from the prior year.

Budgeted disbursements are expected to increase by approximately \$855,956, or 52%, due primarily to the completion of the East Street project in 2017.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$93,000 by the close of fiscal year 2017.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Chris Martin, City Clerk, 419 East Street, Shelby, Iowa 51570.

BASIC FINANCIAL STATEMENTS

CITY OF SHELBY

CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION

AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 233,969	\$ 129,223	\$ 32,638	\$ -0-
Public works	275,252	-0-	79,214	-0-
Cultures and recreation	30,771	2,575	15,914	-0-
Community and economic development	33,636	-0-	2,681	-0-
General government	156,759	11,527	2,681	3,824
Debt service	19,225	-0-	-0-	-0-
Capital projects	242,812	-0-	-0-	7
Total governmental activities	992,424	143,325	133,128	3,831
Business type activities:				
Water	96,849	171,479	-0-	-0-
Sewer	20,939	63,537	28	-0-
Electric	408,783	646,315	55	-0-
Total business type activities	526,571	881,331	83	-0-
Total	\$ 1,518,995	\$ 1,024,656	\$ 133,211	\$ 3,831
General receipts:				
Property taxes levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Unrestricted investment earnings				
Miscellaneous				
Loan proceeds				
Sale of property				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position, beginning of year				
Cash basis net position, end of year				
Cash Basis Net Position				
Restricted:				
Expendable:				
Streets				
Other purposes				
Assigned				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

EXHIBIT A

<u>Net (Disbursements), Receipts and Changes in Cash Basis Net Position</u>					
<u>Governmental</u>		<u>Business Type</u>		<u>Total</u>	
<u>Activities</u>		<u>Activities</u>			
\$	(72,108)	\$	-0-	\$	(72,108)
	(196,038)		-0-		(196,038)
	(12,282)		-0-		(12,282)
	(30,955)		-0-		(30,955)
	(138,727)		-0-		(138,727)
	(19,225)		-0-		(19,225)
	<u>(242,805)</u>		<u>-0-</u>		<u>(242,805)</u>
	(712,140)		-0-		(712,140)
	-0-		74,630		74,630
	-0-		42,626		42,626
	<u>-0-</u>		<u>237,587</u>		<u>237,587</u>
	<u>-0-</u>		<u>354,843</u>		<u>354,843</u>
	(712,140)		354,843		(357,297)
	354,452		-0-		354,452
	200,658		-0-		200,658
	46,183		-0-		46,183
	827		305		1,132
	30,750		-0-		30,750
	148,500		-0-		148,500
	-0-		148,622		148,622
	<u>372,739</u>		<u>(372,739)</u>		<u>-0-</u>
	<u>1,154,109</u>		<u>(223,812)</u>		<u>930,297</u>
	441,969		131,031		573,000
	<u>991,091</u>		<u>850,566</u>		<u>1,841,657</u>
\$	<u>1,433,060</u>	\$	<u>981,597</u>	\$	<u>2,414,657</u>
\$	47,666	\$	-0-	\$	47,666
	659,350		3,729		663,079
	276,234		-0-		276,234
	449,810		977,868		1,427,678
\$	<u>1,433,060</u>	\$	<u>981,597</u>	\$	<u>2,414,657</u>

CITY OF SHELBY

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

		Special Revenue	
	General	Local Option	Tax Increment Financing
Receipts:			
Property tax	\$ 354,452	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	200,658
Other city taxes	5,362	46,183	-0-
Licenses and permits	2,656	-0-	-0-
Use of money and property	5,401	-0-	-0-
Intergovernmental	53,770	-0-	-0-
Charges for service	74,335	-0-	-0-
Special assessments	7,989	-0-	-0-
Miscellaneous	28,460	-0-	-0-
Total receipts	<u>532,425</u>	<u>46,183</u>	<u>200,658</u>
Disbursements:			
Public safety	197,294	-0-	-0-
Public works	275,252	-0-	-0-
Culture and recreation	27,384	-0-	-0-
Community and economic development	20	-0-	31,271
General government	141,775	-0-	-0-
Debt service	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-
Total disbursements	<u>641,725</u>	<u>-0-</u>	<u>31,271</u>
Excess (deficiency) of receipts over (under) disbursements	(109,300)	46,183	169,387
Other financing sources (uses):			
Operating transfer in	364,557	-0-	-0-
Operating transfer out	(187,920)	(181,531)	(240,470)
Note proceeds	148,500	-0-	-0-
Total other financing sources (uses)	<u>325,137</u>	<u>(181,531)</u>	<u>(240,470)</u>
Net change in cash balances	215,837	(135,348)	(71,083)
Cash balances, beginning of year	<u>529,300</u>	<u>139,305</u>	<u>53,344</u>
Cash balances, end of year	\$ <u>745,137</u>	\$ <u>3,957</u>	\$ <u>(17,739)</u>
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ -0-	\$ -0-	\$ -0-
Other purposes	-0-	3,957	-0-
Assigned	276,234	-0-	-0-
Unassigned	468,903	-0-	(17,739)
Total cash basis fund balances	\$ <u>745,137</u>	\$ <u>3,957</u>	\$ <u>(17,739)</u>

EXHIBIT B

Capital Projects	Non-major	Total
\$ -0-	\$ -0-	\$ 354,452
-0-	-0-	200,658
-0-	-0-	51,545
-0-	-0-	2,656
7	56	5,464
3,824	79,214	136,808
-0-	-0-	74,335
-0-	-0-	7,989
-0-	50,787	79,247
<u>3,831</u>	<u>130,057</u>	<u>913,154</u>
-0-	36,675	233,969
-0-	-0-	275,252
-0-	3,387	30,771
-0-	2,345	33,636
-0-	14,984	156,759
-0-	19,225	19,225
242,812	-0-	242,812
<u>242,812</u>	<u>76,616</u>	<u>992,424</u>
(238,981)	53,441	(79,270)
634,197	56,438	1,055,192
-0-	(72,532)	(682,453)
-0-	-0-	148,500
<u>634,197</u>	<u>(16,094)</u>	<u>521,239</u>
395,216	37,347	441,969
<u>206,884</u>	<u>62,258</u>	<u>991,091</u>
\$ <u>602,100</u>	\$ <u>99,605</u>	\$ <u>1,433,060</u>
\$ -0-	\$ 47,666	\$ 47,666
602,100	53,293	659,350
-0-	-0-	276,234
-0-	(1,354)	449,810
\$ <u>602,100</u>	\$ <u>99,605</u>	\$ <u>1,433,060</u>

See Notes to Financial Statements

CITY OF SHELBY

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise			
	Water	Sewer	Electric	Total
Operating receipts:				
Charges for services	\$ 169,731	\$ 63,537	\$ 644,365	\$ 877,633
Operating disbursements:				
Business type activities	45,125	20,939	407,444	473,508
Excess (deficiency) of operating receipts over (under) operating disbursements	124,606	42,598	236,921	404,125
Non-operating receipts (disbursements)				
Customer deposits	1,750	-0-	1,950	3,700
Deposit refunds	(1,116)	-0-	(1,339)	(2,455)
Debt service	(50,608)	-0-	-0-	(50,608)
Interest on investments	34	164	188	386
Sale of property	-0-	-0-	148,622	148,622
Net non-operating	(49,940)	164	149,421	99,645
Excess of receipts over disbursements	74,666	42,762	386,342	503,770
Transfers out	(32,000)	(41,445)	(299,294)	(372,739)
Change in cash balances	42,666	1,317	87,048	131,031
Cash balances, beginning of year	(33,805)	216,956	667,415	850,566
Cash balances, end of year	\$ 8,861	\$ 218,273	\$ 754,463	\$ 981,597
Cash Basis Fund Balances				
Restricted for debt service	\$ 3,729	\$ -0-	\$ -0-	\$ 3,729
Unrestricted	5,132	218,273	754,463	977,868
Total cash basis fund balances	\$ 8,861	\$ 218,273	\$ 754,463	\$ 981,597

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

**CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(1) Summary of Significant Accounting Policies

The City of Shelby is a political subdivision of the State of Iowa located in Shelby and Pottawattamie Counties. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Shelby has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Government Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Shelby County Assessor's Conference Board, Shelby County Emergency Management Commission, Shelby County Landfill Commission and Shelby County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Position reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued)

The Statement of Activities and Net Position presents the City's non-fiduciary net position. Net position is reported in the following categories/components:

Expendable restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and capital improvement costs not paid from other funds.

Special Revenue:

The Local Option Sales Tax Fund is used to account for the local option sales tax from the State of Iowa for special purposes as determined by City Council.

**CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued)

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness and rebate agreements.

The Capital Projects fund is used to account for infrastructure projects.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric utility.

C. Measurement Focus and Basis of Accounting

The City of Shelby maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (continued)

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantor or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements did not exceed amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2016, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(2) Cash and Pooled Investments (Continued)

At June 30, 2016, the City's deposits consisted of cash in bank and certificates of deposit as follows:

Cash in bank	\$ 1,254,293
Certificates of deposit	<u>181,022</u>
Total	<u>\$ 1,435,315</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$979,342 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipts) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the need and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation note and bonds and water revenue bonds are as follows:

Year Ending June 30,	General Obligation Sewer Improvement Notes		Water Revenue Bonds	
	Principal	Interest	Principal	Interest
2017	\$ 596,837	\$ 9,160	\$ 48,000	\$ 4,445
2018	15,000	-0-	49,000	3,605
2019	15,000	-0-	51,000	2,748
2020	15,000	-0-	53,000	1,856
2021	15,000	-0-	53,000	928
2022	15,000	-0-	-0-	-0-
2023	15,000	-0-	-0-	-0-
2024	15,000	-0-	-0-	-0-
2025	15,000	-0-	-0-	-0-
2026	7,500	-0-	-0-	-0-
Total	<u>\$ 724,337</u>	<u>\$ 9,160</u>	<u>\$ 254,000</u>	<u>\$ 13,582</u>

**CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(3) Bonds and Notes Payable (Continued)

Year Ending June 30,	Total	
	Principal	Interest
2017	\$ 644,837	\$ 13,605
2018	64,000	3,605
2019	66,000	2,748
2020	68,000	1,856
2021	68,000	928
2022	15,000	-0-
2023	15,000	-0-
2024	15,000	-0-
2025	15,000	-0-
2026	7,500	-0-
Total	\$ <u>978,337</u>	\$ <u>22,742</u>

Firetruck Note

On August 28, 2015, the Shelby Fire & Rescue Department issued a \$150,000 note to the Fire Service Training Bureau, Iowa Department of Public Safety, to finance the purchase of a new fire truck. The note required a 1% loan origination fee, bears interest at 0%, requires semi-annual principal payments of \$7,500 and matures September 1, 2025.

Essential Corporate Purpose Project Note

On October 21, 2014, the City issued a \$1,000,000 note to a local bank to finance several City projects. The amount advanced thus far under the note agreement is \$581,837. The note bears interest at 3.25%, requires interest payments on June 1st and matures June 1, 2017. At any time within the period of the loan agreement, the City may elect to refund the obligation in exchange for a fixed-rate obligation at current interest rates for a term not to exceed 10 years. On March 1, 2016, the City passed a resolution to amend the agreement to increase the note to \$1,500,000. The note was issued for street improvements, street lighting, sewer, storm water and water improvements, and dilapidated building restoration.

**CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(3) Bonds and Notes Payable (Continued)

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- b) Sufficient month transfers shall be made to a water revenue bond sinking account within the Enterprise Fund for the purpose of making the bond principal and interest payments when due.

(4) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

A multiplier based on years of service.

The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
The member's highest three-year average salary.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(4) Pension Plan (Continued)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$16,632.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(4) Pension Plan (Continued)

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - at June 30, 2016, the City reported a liability of \$128,368 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.002582%, which was a decrease of 0.000668% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$10,826, \$24,679, and \$29,890, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of inflation (effective June 30, 2014)	3.00% per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(4) Pension Plan (Continued)

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of The net pension liability	\$224,750	\$128,368	\$47,015

**CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(4) Pension Plan (Continued)

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 4 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and the plan members are \$925 for family coverage. For the year ended June 30, 2016, the City contributed \$37,631 and plan members eligible for benefits contributed \$4,182 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. Sick leave hours accumulate but are not payable upon termination. The City's approximate liability for earned vacation and compensatory time payable to employees at June 30, 2016, primarily relating to the Enterprise Funds is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 5,642
Compensatory time	<u>-0-</u>
Total	\$ <u>5,642</u>

This liability has been computed based on rates of pay in effect at June 30, 2016.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$325 during the year ended June 30, 2016.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise - Electric	\$ 90,000
General	Enterprise - Sewer	41,445
General	Enterprise - Water	32,000
General	Special Revenue - Local Option	129,000
General	Special Revenue - Road Use	72,112
Special Revenue - Econ Dev	General	991
Special Revenue - Fire Fund	Special Revenue - Park Fund	420
Special Revenue - Park Fund	Enterprise - Electric	110
Special Revenue - PSF	Enterprise - Electric	9,184
Special Revenue - PSF	General	5,733
Debt Service	General	20,000
Debt Service	Special Revenue - TIF	20,000
Capital Projects	General	161,196
Capital Projects	Special Revenue - Local Option	52,531
Capital Projects	Enterprise - Electric	200,000
Capital Projects	Special Revenue - TIF	220,470
Total		\$ <u>1,055,192</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.07 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 764 members included various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(9) Risk Management (Continued)

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of the deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2016 were \$15,388.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(9) Risk Management (Continued)

The City also carries commercial insurance purchased from Iowa Municipal Workers Compensation Association (IMWCA) for coverage associated with workers compensation in the amount of \$16,935. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Deficit Balances

At June 30, 2016, the Economic Development Fund had a deficit balance of \$1,354 and the Tax Increment Financing Fund had a deficit balance of \$17,739. The deficits will be eliminated upon receipt of tax increment financing revenue and transfers from other funds.

(11) Internal Loans

The City has approved a variety of urban renewal projects to be completed with tax increment financing and has advanced internal loans in order to create qualified debt to be certified to the County Auditor for reimbursement by tax increment financing. The details of those internal loans to the Tax Increment Financing Fund are detailed as follows:

November 4, 2014		
Enterprise Fund - Electric	\$	150,000
Special Revenue - Local Option		200,000
Special Revenue - Road Use		100,000
November 17, 2015		
Enterprise Fund - Electric		200,000
Special Revenue - Local Option		52,531
Special Revenue - General		173,194
Total	\$	<u>875,725</u>

The urban renewal projects are incomplete as of June 30, 2016 and City Council has not yet approved a schedule of repayment.

(12) Subsequent Events

In August 2016, the City increased the amount of the General Obligation Corporate Purpose Note (line of credit agreement with a local bank) to \$1.5 million from \$1 million. Other terms of the original loan agreement remain intact.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(13) New Accounting Pronouncement

The City of Shelby adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

OTHER INFORMATION

CITY OF SHELBY
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY
FUNDS

OTHER INFORMATION

YEAR ENDED JUNE 30, 2016

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 354,452	\$ -0-
Tax increment financing	200,658	-0-
Other city tax	51,545	-0-
Licenses and permits	2,656	-0-
Use of money and permits	5,464	386
Intergovernmental	136,808	-0-
Charges for services	74,335	881,333
Special assessments	7,989	-0-
Miscellaneous	79,247	-0-
Total receipts	<u>913,154</u>	<u>881,719</u>
Disbursements:		
Public safety	233,969	-0-
Public works	275,252	-0-
Culture and recreation	30,771	-0-
Community and economic development	33,636	-0-
General government	156,759	-0-
Debt service	19,225	-0-
Capital projects	242,812	-0-
Business type activities	-0-	526,571
Total disbursements	<u>992,424</u>	<u>526,571</u>
Excess (deficiency) of receipts over (under) disbursements	(79,270)	355,148
Other financing sources, net	<u>521,239</u>	<u>(224,117)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	441,969	131,031
Balances beginning of year	<u>991,091</u>	<u>850,566</u>
Balances end of year	\$ <u>1,433,060</u>	\$ <u>981,597</u>

See Accompanying Independent Auditor's Report.

		Budgeted Amounts		Final to
Total		Original	Final	Total Variance
\$	354,452	\$ 323,768	\$ 351,641	\$ 2,811
	200,658	212,194	212,194	(11,536)
	51,545	58,939	61,106	(9,561)
	2,656	5,444	2,625	31
	5,850	1,950	1,720	4,130
	136,808	123,976	165,488	(28,680)
	955,668	953,716	1,142,099	(186,431)
	7,989	4,000	4,000	3,989
	79,247	6,700	2,350	76,897
	<u>1,794,873</u>	<u>1,690,687</u>	<u>1,943,223</u>	<u>(148,350)</u>
	233,969	89,075	454,950	220,981
	275,252	306,882	312,710	37,458
	30,771	42,940	47,090	16,319
	33,636	24,550	40,950	7,314
	156,759	161,140	172,140	15,381
	19,225	25,000	25,000	5,775
	242,812	315,000	445,500	202,688
	526,571	692,500	665,505	138,934
	<u>1,518,995</u>	<u>1,657,087</u>	<u>2,163,845</u>	<u>644,850</u>
	275,878	33,600	(220,622)	496,500
	<u>297,122</u>	<u>-0-</u>	<u>450,000</u>	<u>(152,878)</u>
	573,000	33,600	229,378	343,622
	<u>1,841,657</u>	<u>1,841,657</u>	<u>1,841,657</u>	<u>-0-</u>
\$	<u><u>2,414,657</u></u>	\$ <u><u>1,875,257</u></u>	\$ <u><u>2,071,035</u></u>	\$ <u><u>343,622</u></u>

CITY OF SHELBY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING

JUNE 30, 2016

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts and disbursements by \$506,758. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements did not exceed the amounts budgeted.

CITY OF SHELBY

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST TWO YEARS ***

OTHER INFORMATION

	2016	2015
City's proportion of the net pension liability	0.002582%	0.001914%
City's proportionate share of the net pension liability	\$ 128,368	\$ 77,444
City's covered-employee payroll	\$ 186,244	\$ 178,600
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	68.92%	43.36%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

- In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

See accompanying independent auditor's report.

CITY OF SHELBY

SCHEDULE OF CITY CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

FOR THE LAST THREE YEARS

OTHER INFORMATION

	2016	2015	2014
Statutorily required contribution	\$ 16,632	\$ 15,896	\$ 11,383
Contributions in relation to the statutorily required contribution	<u>16,632</u>	<u>15,896</u>	<u>11,383</u>
Contribution deficiency (excess)	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
City's covered-employee payroll	186,244	178,006	127,469
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%

See accompanying independent auditor's report.

CITY OF SHELBY

NOTES TO OTHER INFORMATION - PENSION LIABILITY

YEAR ENDED JUNE 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups - emergency medical service provider, county jailers, county attorney investigators and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Change of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

SUPPLEMENTARY INFORMATION

CITY OF SHELBY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	Special Revenue			
	Park Fund Raising	Fire Fund Raising	Road Use Tax	Youth Council
Receipts:				
Use of money and property	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Intergovernmental	-0-	-0-	79,214	-0-
Miscellaneous	2,292	47,438	-0-	1,057
Total receipts	2,292	47,438	79,214	1,057
Disbursements:				
Operations:				
Public safety	-0-	36,675	-0-	-0-
Culture and recreation	1,964	-0-	-0-	1,423
Community and economic development	-0-	-0-	-0-	-0-
General government	-0-	-0-	-0-	-0-
Debt service	-0-	-0-	-0-	-0-
Total disbursements	1,964	36,675	-0-	1,423
Excess (deficiency) of receipts over (under) disbursements	328	10,763	79,214	(366)
Other financing sources (uses)				
Operating transfer in	110	420	-0-	-0-
Operating transfer out	(420)	-0-	(72,112)	-0-
Total other financing sources (uses)	(310)	420	(72,112)	-0-
Net change in cash balances	18	11,183	7,102	(366)
Cash balances beginning of year	10,608	24,704	40,564	1,801
Cash balances end year	\$ 10,626	\$ 35,887	\$ 47,666	\$ 1,435
Cash Basis Fund Balances				
Restricted	\$ -0-	\$ -0-	\$ 47,666	\$ -0-
Assigned	10,626	35,887	-0-	1,435
Unassigned	-0-	-0-	-0-	-0-
Total cash basis fund balances	\$ 10,626	\$ 35,887	\$ 47,666	\$ 1,435

SCHEDULE 1 (Continued)

Special Revenue					
PSF	Economic Development	Ed Nelson Scholarship Fund	Nielsen Memorial Fund	Debt Service	Total
\$ -0-	\$ -0-	\$ 56	\$ -0-	\$ -0-	\$ 56
-0-	-0-	-0-	-0-	-0-	79,214
-0-	-0-	-0-	-0-	-0-	50,787
-0-	-0-	56	-0-	-0-	130,057
-0-	-0-	-0-	-0-	-0-	36,675
-0-	-0-	-0-	-0-	-0-	3,387
-0-	2,345	-0-	-0-	-0-	2,345
14,984	-0-	-0-	-0-	-0-	14,984
-0-	-0-	-0-	-0-	19,225	19,225
14,984	2,345	-0-	-0-	19,225	76,616
(14,984)	(2,345)	56	-0-	(19,225)	53,441
14,917	991	-0-	-0-	40,000	56,438
-0-	-0-	-0-	-0-	-0-	(72,532)
14,917	991	-0-	-0-	40,000	(16,094)
(67)	(1,354)	56	-0-	20,775	37,347
67	-0-	3,206	1,527	(20,219)	62,258
\$ -0-	\$ (1,354)	\$ 3,262	\$ 1,527	\$ 556	\$ 99,605
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 556	\$ 48,222
-0-	-0-	3,262	1,527	-0-	52,737
-0-	(1,354)	-0-	-0-	-0-	(1,354)
\$ -0-	\$ (1,354)	\$ 3,262	\$ 1,527	\$ 556	\$ 99,605

See Accompanying Independent Auditor's Report.

**CITY OF SHELBY
STATEMENT OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2016**

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<u>Obligation</u>			
General Obligation:			
Essential Corporate Purpose Project Note	Oct 21, 2014	3.25%	\$ 1,000,000
Firefighting Equipment Loan	Aug 28, 2015	-0-	\$ 150,000
Revenue Bonds:			
Water Revenue Bond	Apr 1, 2001	1.75%	\$ 600,000
Water Improvement Bond	Oct 19, 2001	1.75%	\$ 200,000

SCHEDULE 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 581,837	\$ -0-	\$ -0-	\$ 581,837	\$ 19,225	\$ 1,576
<u>-0-</u>	<u>148,500</u>	<u>7,500</u>	<u>142,500</u>	<u>-0-</u>	<u>-0-</u>
\$ <u>581,837</u>	\$ <u>148,500</u>	\$ <u>7,500</u>	\$ <u>754,337</u>	\$ <u>19,225</u>	\$ <u>1,576</u>
\$ 226,000	\$ -0-	\$ 34,000	\$ 192,000	\$ 3,955	\$ 560
<u>73,000</u>	<u>-0-</u>	<u>11,000</u>	<u>62,000</u>	<u>1,278</u>	<u>181</u>
\$ <u>299,000</u>	\$ <u>-0-</u>	\$ <u>45,000</u>	\$ <u>254,000</u>	\$ <u>5,233</u>	\$ <u>741</u>

See Accompanying Independent Auditor's Report.

**CITY OF SHELBY
BOND AND NOTE MATURITIES
JUNE 30, 2016**

General Obligation Notes

Year Ended June 30,	Corporate Purpose Note		Firefighting Equipment Note		Total
	Issued Oct 21, 2014		Issued Aug 28, 25015		
	Interest		Interest		
	Rate	Amount	Rate	Amount	
2017	3.25%	\$ 581,837	0%	\$ 15,000	596,837
2018	--	-0-	0%	15,000	15,000
2019	--	-0-	0%	15,000	15,000
2020	--	-0-	0%	15,000	15,000
2021	--	-0-	0%	15,000	15,000
2022	--	-0-	0%	15,000	15,000
2023	--	-0-	0%	15,000	15,000
2024	--	-0-	0%	15,000	15,000
2025	--	-0-	0%	15,000	15,000
2026	--	-0-	0%	7,500	7,500
Total		\$ 581,837		\$ 142,500	\$ 724,337

Revenue Bonds

Year Ended June 30,	Water Revenue Bond		Water Improvement Bond		Total
	Issued Apr 1, 2001		Issued Oct 19, 2001		
	Interest Rate	Amount	Interest Rate	Amount	
2017	1.75%	\$ 36,000	1.75%	\$ 12,000	48,000
2018	1.75%	37,000	1.75%	12,000	49,000
2019	1.75%	38,000	1.75%	13,000	51,000
2020	1.75%	40,000	1.75%	13,000	53,000
2021	1.75%	41,000	1.75%	12,000	53,000
Total		\$ 192,000		\$ 62,000	\$ 254,000

See Accompanying Independent Auditors' Report.

CITY OF SHELBY

**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS**

FOR THE LAST TEN YEARS

	<u>2016</u>		<u>2015</u>		<u>2014</u>		<u>2013</u>
Receipts:							
Property tax	\$ 354,452	\$	262,516	\$	135,870	\$	213,093
Tax Increment Financing	200,658		450,588		399,160		312,152
Other city taxes	51,545		63,272		54,005		59,864
Licenses and permits	2,656		2,697		5,310		2,051
Use of money and property	5,464		2,406		2,604		3,507
Intergovernmental	136,808		124,869		80,323		113,675
Charges for services	74,335		76,803		94,253		56,995
Special assessments	7,989		8,306		3,967		2,708
Miscellaneous	<u>79,247</u>		<u>40,317</u>		<u>3,083</u>		<u>34,148</u>
 Total	 \$ <u>913,154</u>	 \$	 <u>1,031,774</u>	 \$	 <u>778,575</u>	 \$	 <u>798,193</u>
Disbursements:							
Operating:							
Public safety	\$ 233,969	\$	93,178	\$	95,057	\$	132,781
Public works	275,252		278,139		192,020		173,943
Culture and recreation	30,771		54,731		27,796		38,149
Economic development	33,636		1,795		2,838		12,161
General government	156,759		126,528		130,409		273,839
Debt service	19,225		10,329		-0-		20,390
Capital projects	<u>242,812</u>		<u>1,202,113</u>		<u>459,432</u>		<u>511,576</u>
 Total	 \$ <u>992,424</u>	 \$	 <u>1,766,813</u>	 \$	 <u>907,552</u>	 \$	 <u>1,162,839</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 4

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$	158,829	141,160	\$ 99,487	\$ 111,973	\$ 93,862	\$ 78,458
	128,133	129,851	283,957	280,309	27,855	71,776
	51,373	53,099	47,827	48,846	46,200	35,700
	2,812	2,793	2,075	1,206	2,728	993
	7,061	7,430	5,848	14,826	32,893	41,218
	102,452	98,615	127,924	148,547	1,260,960	427,174
	82,773	50,451	69,827	58,066	58,697	42,882
	1,810	595	407	3,000	7,100	4,050
	14,738	24,976	5,357	14,456	27,642	36,538
\$	<u>549,981</u>	<u>508,970</u>	<u>\$ 642,709</u>	<u>\$ 681,229</u>	<u>\$ 1,557,937</u>	<u>\$ 738,789</u>
\$	91,854	\$ 59,869	\$ 113,448	\$ 79,611	\$ 55,512	\$ 67,563
	104,520	199,148	226,085	171,170	185,612	86,349
	37,311	38,058	89,484	27,035	12,008	44,990
	168,411	168,354	85,899	101,711	148,769	151,450
	72,263	53,828	54,452	50,507	118,648	87,726
	83,870	81,738	85,184	150,281	87,916	6,773
	-0-	18,865	5,166	70,686	1,118,127	575,550
\$	<u>558,229</u>	<u>619,860</u>	<u>\$ 659,718</u>	<u>\$ 651,001</u>	<u>\$ 1,726,592</u>	<u>\$ 1,020,401</u>

See Accompanying Independent Auditor's Report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

August 25, 2016

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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To the Honorable Mayor and
Members of the City Council:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shelby, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated August 25, 2016. My report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Shelby's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Shelby's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Shelby's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified a deficiency in internal control I consider to be a material weakness.

Continued. . .

August 25, 2016

To the Honorable Mayor and
Members of the City Council:
Page Two

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Shelby's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiency described in Part I of the accompanying Schedule of Findings as items I-A-16 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Shelby's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretation of those statutes.

City of Shelby's Responses to the Findings

The City of Shelby's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. The City of Shelby's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Continued. . .

August 25, 2016

To the Honorable Mayor and
Members of the City Council:
Page Three

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Shelby during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Murphy & Associates, CPA, P.C.

**CITY OF SHELBY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2016**

PART I: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES;

I-A-16 Segregation of Duties

Comment - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - I realize that with only one full-time clerk and a part-time deputy clerk, segregation of duties among employees is next to impossible. The City should review its control procedures to obtain the maximum internal control possible under the circumstances. For example, City Council should continue to sign the claims list as an indication of its supervision and approval.

Response - We will review our control procedures to incorporate the Deputy Clerk and City Council in supervisory roles.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**CITY OF SHELBY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2016**

PART II Other Findings Related to Statutory Reporting

- II-A-16 Certified Budget - Disbursements during the year ended June 30, 2016, did not exceed the amounts budgeted in the governmental and business type activities functions.
- II-B-16 Questionable Disbursements - I noted no disbursements for parties, banquets or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-16 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-16 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Ron Kroll, Mayor, Owner Kroll Construction	Bobcat rent	\$ 325

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the mayor do not appear to represent a conflict of interest since the transaction with the mayor was less than \$1,500.

- II-E-16 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-16 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.
- II-G-16 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted.

**CITY OF SHELBY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2016**

PART II: Other Findings Related to Statutory Reporting (Continued)

II-H-16 Revenue Bonds and Notes - The City has complied with the revenue bond and note resolutions.

II-I-16 Payment of General Obligation Note - Principal on the firefighters equipment note was paid from the General Fund. Chapter 384.4 of the Code of Iowa states, in part, "Monies pledged or available to service general obligation debt, and received from sources other than property tax, must be deposited in the debt service fund."

Recommendation - The City should transfer from the General Fund, or another appropriate fund, to the Debt Service Fund for future funding contributions. Payment of the note should then be disbursed from the Debt Service Fund.

Response - We will transfer in the future as recommended.

Conclusion - Response accepted.

II-J-16 Financial Condition - The Economic Development Fund had a deficit balance of \$1,354 and the Tax Increment Financing Fund had a deficit balance of \$17,739 at June 30, 2016.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response - The Tax Increment Financing Fund will be replenished when taxes are receipted. Transfers will restore the Economic Development Fund to a sound financial condition.

Conclusion - Response accepted.

II-K-16 Annual Urban Renewal Report - The Annual Urban Renewal Report was approved by City Council and certified to the Iowa Department of Management on or before December 1, 2015.

CITY OF SHELBY
SHELBY, IOWA 51570
NEWS RELEASE

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa, today released an audit report on the City of Shelby, Iowa.

The City's receipts totaled \$2,091,995 for the year ended June 30, 2016, a 17 percent decrease from 2015. The receipts included \$354,452 in property tax, \$200,658 from tax increment financing, \$1,024,656 from charges for services, \$133,211 from operating grants, contributions and restricted interest, \$3,831 from capital grants, contributions and restricted interest, \$46,183 for local option sales tax, \$1,132 from unrestricted interest on investments, \$148,500 from note proceeds, \$30,750 from miscellaneous receipts and \$148,622 from the sale of property.

Disbursements for the year totaled \$1,518,995, a 36 percent decrease from the prior year, and included \$275,252 for public works, \$242,812 for capital projects, and \$233,969 for public safety. Also, disbursements for business type activities totaled \$526,571.

The significant decrease in receipts and disbursements is due primarily to capital project financing and disbursements in the prior year.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

